

OECD cuts global GDP forecast amid Covid-19 variant concerns

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The main risk to an otherwise upbeat global economic outlook is that the current inflation spike proves longer and rises further than currently expected, the OECD said on Wednesday.

Global growth is set to hit 5.6% this year before moderating to 4.5% in 2022 and 3.2% in 2023, the Organisation for Economic Cooperation and Development said in its latest economic outlook.

That was little changed from a previous forecast of 5.7% for 2021, while the forecast for 2022 was unchanged. The OECD did not produce estimates for 2023 until now.

With the global economy rebounding strongly, companies are struggling to meet a post-pandemic snap-back in customer demand, causing inflation to shoot up worldwide as bottlenecks have emerged in global supply chains.

Like most policymakers, the OECD said that the spike was expected to be transitory and fade as demand and production returned to normal.

“The main risk, however, is that inflation continues to surprise on the upside, forcing the major central banks to tighten monetary policy earlier and to a greater extent than projected,” the OECD said.

chart

Provided that that risk did not materialise, inflation in the OECD as a whole was likely close to peaking at nearly 5% and would gradually pull back to about 3% by 2023, the Paris-based organisation said.

Against that backdrop, the best thing central banks can do for now is wait for supply tensions to ease and signal they will act if necessary, the OECD said.

Federal Reserve Chair Jerome Powell said on Tuesday that the U.S. central bank should consider winding down of its large-scale bond purchases faster amid a strong economy and expectations that a surge in inflation will persist into the middle of next year.

In the United States, the OECD forecast the world's biggest economy would grow 5.6% this year, 3.7% in 2022 and 2.4% in 2023, down from previous projections of 6.0% in 2021 and 3.9% in 2022.

The outlook for China was also less optimistic, with growth forecast at 8.1% in 2021 and 5.1% in both 2022 and 2023 whereas previously the OECD had expected 8.5% in 2021 and 5.8% in 2022.

However, the outlook was slightly more upbeat for the European zone than previously expected with growth expected at 5.2% in 2021, 4.3% in 2022 and 2.5% in 2023 compared with previous forecasts of 5.3% in 2021 and 4.6% 2022. It wouldn't be too bad for Europe.

Credit: Business Standard